

UBLY COMMUNITY SCHOOLS
UBLY, MICHIGAN
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2006

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 28, 2006

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Ubly Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ubly Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Ubly Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ubly Community Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated July 28, 2006 on our consideration of the Ubly Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages II - VII, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ubly Community Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf P.C.
LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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UBLY COMMUNITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Uby Community Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

UBLY COMMUNITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

District Wide Financial Statements: (Continued)

These two statements report the Ubyly Community Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District's financial health or financial position. Over time, increases or decreased in the School District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and state and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2006 and 2005:

	<u>NET ASSETS SUMMARY</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current Assets	\$3,476,818	\$3,720,614
Non-Current Assets	<u>1,835,516</u>	<u>1,754,567</u>
<u>TOTAL ASSETS</u>	<u>\$5,312,334</u>	<u>\$5,475,181</u>
<u>LIABILITIES</u>		
Current Liabilities	\$1,112,266	\$1,029,757
Long-Term Liabilities	<u>103,960</u>	<u>574,171</u>
Total Liabilities	\$1,216,226	\$1,603,928
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	1,314,979	786,527
Restricted - Debt Service	158,428	253,858
Unrestricted	<u>2,622,701</u>	<u>2,830,868</u>
Total Net Assets	<u>\$4,096,108</u>	<u>\$3,871,253</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$5,312,334</u>	<u>\$5,475,181</u>

UBLY COMMUNITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2006 and 2005, the District wide results of operations were:

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$406,096	\$391,051
Property Taxes Levied for Debt Service	320,344	410,155
State of Michigan Unrestricted Foundation Aid	5,597,685	5,561,157
Other General Revenues	<u>92,697</u>	<u>70,145</u>
Total General Revenues	\$6,416,822	\$6,432,508
<u>Operating Grants:</u>		
Federal	340,116	374,537
State of Michigan	284,931	283,114
Other Grants	<u>201,346</u>	<u>192,444</u>
Total Operating Grants	\$826,393	\$850,095
<u>Charges for Services:</u>		
Food Service	148,330	142,018
Athletics	90,808	92,625
Other Charges for Services	<u>27,480</u>	<u>16,296</u>
Total Charges for Services	<u>\$266,618</u>	<u>\$250,939</u>
Total Revenues	\$7,509,833	\$7,533,542
<u>EXPENSES</u>		
Instruction & Instructional Support	4,575,790	4,819,493
Support Services	1,983,988	1,883,819
Food Service	354,060	347,186
Athletics	281,389	261,146
Interest on Long-Term Debt	58,845	77,499
Depreciation	<u>30,906</u>	<u>36,944</u>
Total Expenses	<u>\$7,284,978</u>	<u>\$7,426,087</u>
<u>INCREASE IN NET ASSETS</u>	\$224,855	\$107,455
<u>BEGINNING NET ASSETS</u>	<u>3,871,253</u>	<u>3,763,798</u>
<u>ENDING NET ASSETS</u>	<u><u>\$4,096,108</u></u>	<u><u>\$3,871,253</u></u>

UBLY COMMUNITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2006, the District's Total Net Assets increased by \$224,855 to a total of \$4,096,108. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$528,452 during the year due to purchases of new capital assets and principal payments on related debt exceeding depreciation. The district's unrestricted net assets decreased by \$208,167 during the year and the restricted portion of the net assets decreased by \$95,430. The restricted net assets consist of the restricted debt retirement funds that may only be used to pay bonded debt. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The District's overall revenues exceeded its expenses for the year by \$224,855. The total revenues decreased by \$23,709 over last years amounts. The major change was decreases in property taxes and federal revenue. Expenditures decreased by \$141,109. Major changes were due to decreased wages and benefits, because of a prior year voluntary severance plan.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund decreased by \$175,132 during the year with the decrease primarily in cash. Revenues for the year increased by \$48,417 primarily from increases on investments earnings and state aid. Expenditures and other financing uses decreased by \$199,539, primarily due to the prior year voluntary severance plan. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead tax levy.

2. Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Ubyly Community Schools foundation allowance was \$6,875 per student for the 2005-2006 school year.

3. Student Enrollment:

The District's student enrollment for the fall count of 2005-2006 was 889 students, a decrease of 13 students from the prior year.

UBLY COMMUNITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2005-2006 fiscal year was \$406,234. An increase of \$15,322 from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original & Final Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenues	\$6,601,232	\$6,710,055	\$6,748,714	1.65	0.58
Expenditures	6,883,740	6,954,958	6,923,846	1.03	0.45
<u>TOTAL</u>	<u>(\$282,508)</u>	<u>(\$244,903)</u>	<u>(\$175,132)</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Uby Community Schools amends its budget during the school year. The June, 2006 budget amendment was the final budget for the fiscal year.

Original vs. Final Budgets

Variations between the original and final budget were due to the fact the student enrollment and state aid amounts were unknown when the original budget was prepared. There were no significant variations between the final budget and the District's actual results.

Revenues

Original budget did not take into account local sources of income paid through the ISD and interest rates yielded more than originally budgeted.

Expenditures

There were no significant variations between the final budget and the districts original budget, except for a new storage building that was built.

UBLY COMMUNITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

ANALYSIS OF BUDGETS: (Continued)

Actual Results vs. Final Budgets

Revenues

There was not a significant variance between the final budget and the actual results.

Expenditures

There was not a significant variance between the final budget and the actual results.

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long-term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-1-05	Increases 6-30-06	Principal Payments 6-30-06	Principal Balance 6-30-06
General Obligation Bonds	\$968,040	\$0	\$447,503	\$520,537
Sick Days Payable	53,634	22,411	0	76,045
<u>TOTAL</u>	<u>\$1,021,674</u>	<u>\$22,411</u>	<u>\$447,503</u>	<u>\$596,582</u>

B. Capital Assets

The district's net investment in capital assets increased by \$80,949 during the fiscal year. This can be summarized as follows:

	Balance 7-1-05	Additions	Deductions	Balance 6-30-06
Capital Assets	\$4,202,621	\$322,044	\$86,778	\$4,437,887
Less: Accumulated Depreciation	(2,448,054)	(197,595)	(43,278)	(2,602,371)
<u>Net Investment Capital Outlay</u>	<u>\$1,754,567</u>	<u>\$124,449</u>	<u>\$43,500</u>	<u>\$1,835,516</u>

Significant additions were the purchase of a 2007 school bus, roof repair renovation, a new sign in the front of the school, and numerous technology equipment upgrades (computers, etc.).

UBLY COMMUNITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

* Foundation Allowance

The Board of Education and Administration agreed to an estimate of a foundation allowance of \$7,075 per pupil for the 06-07 fiscal year based on information received from various educational organizations such as Michigan Association of School Business Officials, Michigan Association of School Administrators, and the Michigan Association of School Boards as well as discussions local state representatives. The political debate regarding the funding of public education, the current economic climate in the State of Michigan and the gubernatorial election will all affect this estimate before the final foundation allowance is known.

* Retirement Rates

The continuing cost of health insurance to current and potential retirees continues to drive the rate increases the Michigan School Personnel Retirement System recommends to the legislature for approval. The rate is anticipated to increase to 17.74% in 06-07 from 16.34% in 05-06.

* The Uby Community Schools 2006/2007 adopted budget is as follows:

<u>REVENUE</u>	\$6,929,336
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<u>EXPENDITURES</u>	<u>7,312,949</u>
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<u>NET (UNDER) BUDGET</u>	<u><u>(\$383,613)</u></u>
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CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Uby Community Schools.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$2,092,710
Investments	223,604
Accounts Receivable	16,489
Due from Other Governmental Units	1,127,077
Due from Internal Accounts	2,480
Inventory	14,458
Total Current Assets	<u>\$3,476,818</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets	4,437,887
Less: Accumulated Depreciation	<u>(2,602,371)</u>
Total Noncurrent Assets	<u>\$1,835,516</u>
<u>TOTAL ASSETS</u>	<u>\$5,312,334</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	194,033
Accrued Expenses	218,958
Salaries Payable	206,653
Current Portion of Long-Term Obligations	492,622
Total Current Liabilities	<u>\$1,112,266</u>
<u>NON-CURRENT LIABILITIES</u>	
Noncurrent Portion of Long-Term Obligations	<u>103,960</u>
<u>TOTAL LIABILITIES</u>	<u>\$1,216,226</u>
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	1,314,979
Restricted for:	
Debt Retirement	158,428
Unrestricted	<u>2,622,701</u>
<u>TOTAL NET ASSETS</u>	<u><u>\$4,096,108</u></u>

See accompanying notes to the basic financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue & Change in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$4,575,790	\$0	\$425,935	(\$4,149,855)
Support Services	1,983,988	27,480	210,150	(1,746,358)
Food Service	354,060	148,330	190,308	(15,422)
Athletics	281,389	90,808	0	(190,581)
Interest - Long-Term Obligations	58,845	0	0	(58,845)
Depreciation - Unallocated	30,906	0	0	(30,906)
<u>TOTALS</u>	<u>\$7,284,978</u>	<u>\$266,618</u>	<u>\$826,393</u>	<u>(\$6,191,967)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				726,440
State Aid				5,597,685
Investment Earnings				68,379
Miscellaneous				24,318
Total General Revenues and Transfers				<u>\$6,416,822</u>
Change in Net Assets				\$224,855
Net Assets - Beginning				<u>3,871,253</u>
<u>Net Assets - Ending</u>				<u>\$4,096,108</u>

See accompanying notes to the basic financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$1,919,058	\$173,652	\$2,092,710
Investments	223,604	0	223,604
Accounts Receivable	16,489	0	16,489
Due from Other Governmental Units	1,123,828	3,249	1,127,077
Due from Student Activities	2,480	0	2,480
Inventory	13,439	1,019	14,458
<u>TOTAL ASSETS</u>	<u>\$3,298,898</u>	<u>\$177,920</u>	<u>\$3,476,818</u>
<u>LIABILITIES</u>			
Accounts Payable	\$194,033	\$0	\$194,033
Accrued Expenses	214,133	0	214,133
Salaries Payable	206,653	0	206,653
Total Liabilities	\$614,819	\$0	\$614,819
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	13,439	1,019	14,458
Debt Retirement	0	158,428	158,428
Unreserved:			
Undesignated, Reported In:			
General Fund	2,670,640	0	2,670,640
School Service	0	18,473	18,473
Total Fund Balances	\$2,684,079	\$177,920	\$2,861,999
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$3,298,898</u>	<u>\$177,920</u>	<u>\$3,476,818</u>

See accompanying notes to the basic financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2006

Total Governmental Fund Balances:			\$2,861,999
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$4,437,887 and the accumulated depreciation is \$2,602,371			1,835,516
Accrued Interest on Long-Term Debt			(4,825)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:			
Bonds Payable		520,537	
Sick Days Payable		76,045	
Total			<u>(596,582)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>			<u>\$4,096,108</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Local Sources	\$534,487	\$567,179	\$1,101,666
State Sources	5,859,283	23,333	5,882,616
Federal Sources	169,509	170,607	340,116
Total Revenues	<u>\$6,563,279</u>	<u>\$761,119</u>	<u>\$7,324,398</u>
<u>EXPENDITURES</u>			
Current:			
Instruction	4,529,581	0	4,529,581
Student Services	196,340	0	196,340
Instructional Support	148,109	0	148,109
General Administration	230,764	0	230,764
School Administration	397,424	0	397,424
Business Administration	89,041	0	89,041
Operation & Maintenance	621,810	0	621,810
Transportation	427,854	0	427,854
Other Support Services	42,471	0	42,471
School Service	0	601,275	601,275
Debt Retirement	0	503,777	503,777
Total Expenditures	<u>\$6,683,394</u>	<u>\$1,105,052</u>	<u>\$7,788,446</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(\$120,115)	(\$343,933)	(\$464,048)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers from (to) Other Funds	(240,452)	240,452	0
Other Transfers	185,435	0	185,435
Total Other Financing Sources (Uses)	<u>(55,017)</u>	<u>240,452</u>	<u>185,435</u>
Net Change in Fund Balance	(\$175,132)	(\$103,481)	(\$278,613)
<u>FUND BALANCE - BEGINNING</u>	<u>2,859,211</u>	<u>281,401</u>	<u>3,140,612</u>
<u>FUND BALANCE - ENDING</u>	<u>\$2,684,079</u>	<u>\$177,920</u>	<u>\$2,861,999</u>

See accompanying notes to the basic financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Total net change in fund balances - governmental funds	(\$278,613)
--	-------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

80,949

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.

447,503

(Increase) in Sick Days Payable

(22,411)

Change in accrued interest on long-term liabilities

<u>(2,573)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

<u>\$224,855</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
AS OF JUNE 30, 2006

	Trust & Agency
<u>ASSETS</u>	
Cash and Cash Equivalents	\$71,781
Accounts Receivable	<u>4,000</u>
<u>TOTAL ASSETS</u>	<u>\$75,781</u>
 <u>LIABILITIES</u>	
Due to General Fund	\$2,480
Due to Student Groups	<u>73,301</u>
<u>TOTAL LIABILITIES</u>	<u>\$75,781</u>

See accompanying notes to the basic financial statements.

UBLY COMMUNITY SCHOOLS - UBLV, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<u>REVENUES</u>				
Local Sources	\$462,663	\$499,861	\$534,487	\$34,626
State Sources	5,793,659	5,855,094	5,859,283	4,189
Federal Sources	164,910	169,600	169,509	(91)
Total Revenues	<u>\$6,421,232</u>	<u>\$6,524,555</u>	<u>\$6,563,279</u>	<u>\$38,724</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	4,515,137	4,536,705	4,529,581	7,124
Student Services	188,154	196,775	196,340	435
Instructional Support	156,650	148,633	148,109	524
General Administration	233,438	231,846	230,764	1,082
School Administration	386,993	397,569	397,424	145
Business Administration	87,337	89,390	89,041	349
Operation & Maintenance of Plant	634,630	637,547	621,810	15,737
Transportation	382,112	431,298	427,854	3,444
Other Support Services	63,350	44,600	42,471	2,129
Total Expenditures	<u>\$6,647,801</u>	<u>\$6,714,363</u>	<u>\$6,683,394</u>	<u>\$30,969</u>
Excess of Revenues Over Expenditures	<u>(\$226,569)</u>	<u>(\$189,808)</u>	<u>(\$120,115)</u>	<u>\$69,693</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(55,939)</u>	<u>(55,095)</u>	<u>(55,017)</u>	<u>78</u>
Net Change in Fund Balance	<u>(\$282,508)</u>	<u>(\$244,903)</u>	<u>(\$175,132)</u>	<u>\$69,771</u>
<u>FUND BALANCE - BEGINNING</u>			<u>2,859,211</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$2,684,079</u>	

See accompanying notes to the basic financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Uby Community Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Funds

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$1,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

1968 PA 2 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	Portfolio %
U.S. Agency Discount Notes	\$ 223,592	0.4052	A-1+	99.99%
MILAF External Investment Pool - MIMAX	12	0.0027	AAAm	0.01%
Total fair value	<u>\$ 223,604</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.4052</u>		

1 day maturity equals 0.0027, one year equals 1.00.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2006, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in pooled investment accounts which represents 100% of the District's total investments.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

4) DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$1,779,839 of the District's bank balance of \$2,638,267 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$71,781	\$ 2,164,491
Investments	<u>223,604</u>
<u>TOTAL</u>	<u>\$ 2,388,095</u>

The above amounts are reported in the financial statements as follows:

Cash – Agency Fund	\$ 71,781
Cash – District Wide	2,092,710
Investments – District Wide	<u>223,604</u>
<u>TOTAL</u>	<u>\$ 2,388,095</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2006, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

6) RECEIVABLES (Continued)

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 1,071,117
Federal	52,963
Other Grants	<u>2,997</u>
<u>TOTAL</u>	<u>\$ 1,127,077</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2006, the District had \$109 of estimated claims payable in conjunction with the program.

8) SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit. The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2006.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$1,513,913	\$51,012	\$0	\$1,564,925
Land Improvements	784,417	15,030	2,032	797,415
Equipment and Furniture	1,122,016	189,695	84,746	1,226,965
Vehicles	<u>782,275</u>	<u>66,307</u>	<u>0</u>	<u>848,582</u>
Totals at Historical Cost	\$4,202,621	\$322,044	\$86,778	\$4,437,887
Less: Accumulated Depreciation				
Buildings and Improvements	(737,487)	(32,479)	131	(770,097)
Land Improvements	(274,847)	(21,926)	(1,198)	(295,575)
Equipment and Furniture	(887,058)	(74,061)	(42,211)	(918,908)
Vehicles	<u>(548,662)</u>	<u>(69,129)</u>	<u>0</u>	<u>(617,791)</u>
Total Accumulated Depreciation	<u>(\$2,448,054)</u>	<u>(\$197,595)</u>	<u>(\$43,278)</u>	<u>(\$2,602,371)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$1,754,567</u>	<u>\$124,449</u>	<u>\$43,500</u>	<u>\$1,835,516</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

9) CAPITAL ASSETS (Continued)

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 46,209
Support Services	86,306
Food Service	6,983
Athletics	27,191
Unallocated	<u>30,906</u>
 <u>TOTAL DEPRECIATION EXPENSE</u>	 <u>\$ 197,595</u>

10) GENERAL LONG-TERM DEBT

A) 1991 School Building and Site Bonds

Uby Community Schools has issued School Building & Site Bonds dated November 1, 1991, bearing interest at rates varying from 5.7% to 6.00% per annum. These bonds were issued for the purpose of acquiring, constructing and improving major capital facilities. The balance of the bonds as of June 30, 2006 was \$415,000.

B) 1997 Energy Conservation Bonds

Uby Community Schools issued 1997 Energy Conservation Bonds dated May 1, 1997, bearing interest at rates varying from 5.25% to 5.40% per annum. The balance of the bonds as of June 30, 2006 was \$75,000.

C) 1998 Durant Resolution Package Bonds

Uby Community Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$51,716 at the interest rate of 4.76%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2006 was \$30,537.

D) Annual Principal Requirements

The annual principal requirements for all debt outstanding as of June 30, 2006 are as follows:

	Bonds Payable	Interest	Total
June 30, 2007	\$492,622	\$29,959	\$522,581
June 30, 2008	2,747	884	3,631
June 30, 2009	2,878	754	3,632
June 30, 2010	3,015	617	3,632
June 30, 2011	3,159	473	3,632
June 30, 2012-2013	<u>16,116</u>	<u>4,654</u>	<u>20,770</u>
 <u>TOTAL</u>	 <u>\$520,537</u>	 <u>\$37,341</u>	 <u>\$557,878</u>

The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$55,198.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

10) GENERAL LONG-TERM DEBT (Continued)

E) Changes in General Long-Term Debt

	Balance			Balance	Amount Due
<u>Governmental Activities:</u>	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2006</u>	<u>in One Year</u>
General Obligation Bonds	\$968,040	\$0	\$447,503	\$520,537	\$492,622
Sick Days Payable	53,634	22,411	0	76,045	0
<u>TOTAL</u>	<u>\$1,021,674</u>	<u>\$22,411</u>	<u>\$447,503</u>	<u>\$596,582</u>	<u>\$492,622</u>

11) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its fleet insurance, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2006 were \$39,753 and the School District received a dividend refund of \$5,430.

12) LEASE AGREEMENTS

The School District leases facilities under operating leases expiring in July 1, 2007. Minimum future rental payments under noncancellable operating leases having remaining terms in excess of one year as of June 30, 2006, for each of the following years and in the aggregate are:

2007 \$ 20,000

Fiscal year 2006 operating lease payments were \$20,000.

13) INTERFUND ACTIVITY

Interfund balances at June 30, 2006 consisted of the following:

DUE TO	DUE FROM	
	General	Fund
		<u> </u>
Trust and Agency		<u>\$2,480</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

14) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following:

TRANSFERS TO	TRANSFERS FROM
	General Fund
Athletics Fund	\$162,357
Debt Retirement	78,095
<u>TOTAL</u>	<u>\$240,452</u>

These transfers were made to subsidize the cost of services for athletics and bond principal and interest payments.

15) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS pension plan for the years ended June 30, 2006, 2005 and 2004 were \$632,923, \$588,171 and \$498,647, respectively.

Postemployment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS pension plan discussed above.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

16) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and worker's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

17) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantor agencies. The audit of these programs for and including the year ended June 30, 2006, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

OTHER SUPPLEMENTAL
INFORMATION

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

	School Service Funds	Debt Retirement Funds	Total Other Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$15,224	\$158,428	\$173,652
Due from Other Governmental Units	3,249	0	3,249
Inventory	1,019	0	1,019
<u>TOTAL ASSETS</u>	<u>\$19,492</u>	<u>\$158,428</u>	<u>\$177,920</u>
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	\$1,019	\$0	\$1,019
Debt Retirement	0	158,428	158,428
Unreserved:			
Undesignated, Reported In:			
School Service	18,473	0	18,473
<u>TOTAL FUND BALANCES</u>	<u>\$19,492</u>	<u>\$158,428</u>	<u>\$177,920</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	School Service Funds	Debt Retirement Funds	Total Other Governmental Funds
<u>REVENUES</u>			
Local Sources	\$240,559	\$326,620	\$567,179
State Sources	19,701	3,632	23,333
Federal Sources	170,607	0	170,607
Total Revenues	<u>\$430,867</u>	<u>\$330,252</u>	<u>\$761,119</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>162,357</u>	<u>78,095</u>	<u>240,452</u>
Total Revenues & Other Financing Sources	<u>\$593,224</u>	<u>\$408,347</u>	<u>\$1,001,571</u>
<u>EXPENDITURES</u>			
School Service	601,275	0	601,275
Debt Retirement	0	503,777	503,777
Total Expenditures	<u>\$601,275</u>	<u>\$503,777</u>	<u>\$1,105,052</u>
Net Change in Fund Balance	(\$8,051)	(\$95,430)	(\$103,481)
<u>NET ASSETS - BEGINNING</u>	<u>27,543</u>	<u>253,858</u>	<u>281,401</u>
<u>NET ASSETS - ENDING</u>	<u>\$19,492</u>	<u>\$158,428</u>	<u>\$177,920</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
COMBINING BALANCE SHEET
SCHOOL SERVICE FUNDS
AS OF JUNE 30, 2006

	Food Services	Athletic Activities	Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$5,153	\$10,071	\$15,224
Due from Other Governmental Units	3,249	0	3,249
Inventory	1,019	0	1,019
<u>TOTAL ASSETS</u>	<u>\$9,421</u>	<u>\$10,071</u>	<u>\$19,492</u>
<u>FUND BALANCE</u>			
Reserved for Inventory	\$1,019	\$0	\$1,019
Unreserved and Undesignated	8,402	10,071	18,473
<u>TOTAL FUND BALANCE</u>	<u>\$9,421</u>	<u>\$10,071</u>	<u>\$19,492</u>

UBLY COMMUNITY SCHOOLS - UBLV, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
SCHOOL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Food Services</u>	<u>Athletic Activities</u>	<u>Total</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Cafeteria Sales	\$148,330	\$0	\$148,330
Athletic Activities	0	90,808	90,808
Other Local Sources	0	1,421	1,421
Total Local Sources	<u>\$148,330</u>	<u>\$92,229</u>	<u>\$240,559</u>
<u>State Sources</u>			
State Reimbursements	19,701	0	19,701
<u>Federal Sources</u>			
Federal Reimbursements	151,618	0	151,618
Commodities	18,989	0	18,989
Total Federal Sources	<u>\$170,607</u>	<u>\$0</u>	<u>\$170,607</u>
Total Revenues	<u>\$338,638</u>	<u>\$92,229</u>	<u>\$430,867</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from General Fund	0	162,357	162,357
Total Revenues and Other Financing Sources	<u>\$338,638</u>	<u>\$254,586</u>	<u>\$593,224</u>
<u>EXPENDITURES</u>			
Salaries - Non-Professional	96,833	135,000	231,833
Insurances	48,745	18,424	67,169
Fica, Retirement, Etc.	24,004	28,188	52,192
Purchased Services	100	4,570	4,670
Supplies and Materials	172,399	62,145	234,544
Capital Outlay	3,207	1,071	4,278
Other	1,789	4,800	6,589
Total Expenditures	<u>\$347,077</u>	<u>\$254,198</u>	<u>\$601,275</u>
<u>EXCESS REVENUES AND OTHER FINANCING</u> <u>SOURCES OVER (UNDER) EXPENDITURES</u>	<u>(\$8,439)</u>	<u>\$388</u>	<u>(\$8,051)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$17,860</u>	<u>\$9,683</u>	<u>\$27,543</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$9,421</u>	<u>\$10,071</u>	<u>\$19,492</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
COMBINING BALANCE SHEET
DEBT RETIREMENT FUNDS
AS OF JUNE 30, 2006

	<u>1991</u> <u>Debt</u>	<u>1997</u> <u>Debt</u>	<u>1998 Durant</u> <u>Debt</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	<u>\$158,257</u>	<u>\$171</u>	<u>\$0</u>	<u>\$158,428</u>
<u>TOTAL ASSETS</u>	<u><u>\$158,257</u></u>	<u><u>\$171</u></u>	<u><u>\$0</u></u>	<u><u>\$158,428</u></u>
<u>FUND EQUITY</u>				
Reserved for Debt Retirement	<u>\$158,257</u>	<u>\$171</u>	<u>\$0</u>	<u>\$158,428</u>
<u>TOTAL FUND EQUITY</u>	<u><u>\$158,257</u></u>	<u><u>\$171</u></u>	<u><u>\$0</u></u>	<u><u>\$158,428</u></u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
DEBT RETIREMENT FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	1991 Debt	1997 Debt	1998 Durant Debt	Total
<u>REVENUES</u>				
<u>Local Sources</u>				
Property Taxes	\$320,344	\$0	\$0	\$320,344
Earnings on Investments and Deposits	6,272	4	0	6,276
Total Local Sources	\$326,616	\$4	\$0	\$326,620
<u>State Sources</u>	0	0	3,632	3,632
Total Revenues	\$326,616	\$4	\$3,632	\$330,252
<u>OTHER FINANCING SOURCES</u>				
Transfer from General Fund	0	78,095	0	78,095
Total Revenues and Other Financing Sources	\$326,616	\$78,099	\$3,632	\$408,347
<u>EXPENDITURES</u>				
Redemption of Bonds	375,000	70,000	2,504	447,504
Interest Expense	46,275	7,795	1,128	55,198
Agent and Other Fees	775	300	0	1,075
Total Expenditures	\$422,050	\$78,095	\$3,632	\$503,777
<u>EXCESS REVENUES AND OTHER FINANCING</u> <u>SOURCES OVER (UNDER) EXPENDITURES</u>	(\$95,434)	\$4	\$0	(\$95,430)
<u>FUND BALANCE - BEGINNING OF YEAR</u>	\$253,691	\$167	\$0	\$253,858
<u>FUND BALANCE - END OF YEAR</u>	\$158,257	\$171	\$0	\$158,428

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2006

REVENUES FROM
Local Sources

Property Tax Levy	\$406,096
Earnings on Investments and Deposits	62,103
Transportation Fees	1,817
Tuition	23,025
Rentals	2,638
Medicaid	15,911
Other Local Revenues	22,897
Total Revenues from Local Sources	<u>\$534,487</u>

State Sources

State Aid	5,597,685
At Risk	123,964
Special Education	117,729
Durant	5,172
Vocational Education	14,733
Total Revenues from State Sources	<u>\$5,859,283</u>

Federal Sources

Title I	118,574
Class Size Reduction	34,802
Title V	3,814
Technology Literacy	2,495
Grants from ISD	9,824
Total Revenues from Federal Sources	<u>\$169,509</u>
Total Revenues	<u>\$6,563,279</u>

OTHER FINANCING SOURCES

Transfers From Other Districts	<u>185,435</u>
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TOTAL REVENUES AND OTHER FINANCING SOURCES

\$6,748,714

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTIONBASIC PROGRAMSElementary

Salaries - Professional	\$1,363,005
Salaries - Non-Professional	43,547
Insurances	358,855
Fica, Retirement, Etc.	337,353
Other Benefits	12,836
Purchased Services	5,536
Supplies and Materials	44,121
Capital Outlay	65,231
Total Elementary	<u>\$2,230,484</u>

Junior High

Salaries - Professional	305,177
Salaries - Non-Professional	2,318
Insurance	30
Fica, Retirement, Etc.	72,136
Purchased Services	1,120
Supplies and Materials	3,028
Total Junior High	<u>\$383,809</u>

High School

Salaries - Professional	693,176
Salaries - Non-Professional	19,383
Insurances	234,595
Fica, Retirement, Etc.	169,547
Other Benefits	6,171
Purchased Services	82,123
Supplies and Materials	38,220
Capital Outlay	67,346
Other	2,201
Total High School	<u>\$1,312,762</u>

Total Basic Programs

\$3,927,055

ADDED NEEDSSpecial Education

Salaries - Professional	234,513
Salaries - Non-Professional	3,250
Insurances	62,660
Fica, Retirement, Etc.	56,889
Purchased Services	829
Supplies and Materials	4,007
Capital Outlay	241
Total Special Education	<u>\$362,389</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTION (Continued)Compensatory Education

Salaries - Professional	\$105,820
Salaries - Non-Professional	37,680
Insurances	40,438
Fica, Retirement, Etc.	31,462
Purchased Services	5,617
Supplies and Materials	19,120
Total Compensatory Education	<u>\$240,137</u>

Total Added Needs	<u>\$602,526</u>
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<u>Total Instruction</u>	\$4,529,581
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SUPPORT SERVICESSTUDENT SERVICES

Salaries - Professional	62,359
Salaries - Non-Professional	53,644
Insurances	36,181
Fica, Retirement, Etc.	28,577
Other Benefits	6,171
Purchased Services	195
Supplies and Materials	9,213
Total Student Services	<u>\$196,340</u>

INSTRUCTIONAL STAFF

Salaries - Professional	68,469
Salaries - Non-Professional	1,379
Insurances	15,665
Fica, Retirement, Etc.	15,772
Purchased Services	6,544
Supplies and Materials	26,698
Capital Outlay	13,582
Total Instructional Staff	<u>\$148,109</u>

GENERAL ADMINISTRATION

Salaries - Professional	112,986
Salaries - Non-Professional	30,363
Insurances	20,209
Fica, Retirement, Etc.	30,661
Other Benefits	3,900
Purchased Services	21,832
Supplies and Materials	6,791
Other	4,022
Total General Administration	<u>\$230,764</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICES (Continued)

SCHOOL ADMINISTRATION

Salaries - Professional	\$178,935
Salaries - Non-Professional	60,712
Insurances	47,811
Fica, Retirement, Etc.	57,164
Other Benefits	600
Purchased Services	1,356
Supplies and Materials	41,862
Capital Outlay	7,899
Other	1,085
Total School Administration	<u>\$397,424</u>

BUSINESS OFFICE

Salaries - Professional	41,263
Insurances	18,424
Fica, Retirement, Etc.	9,900
Other Benefits	300
Purchased Services	16,378
Other	2,776
Total Business Office	<u>\$89,041</u>

OPERATION AND MAINTENANCE

Salaries - Professional	42,813
Salaries - Non-Professional	130,609
Insurances	75,452
Fica, Retirement, Etc.	46,504
Purchased Services	132,238
Supplies and Materials	136,820
Capital Outlay	57,374
Total Operation and Maintenance	<u>\$621,810</u>

TRANSPORTATION

Salaries - Professional	43,804
Salaries - Non-Professional	126,086
Insurances	54,099
Fica, Retirement, Etc.	44,190
Other Benefits	12,894
Purchased Services	10,097
Supplies and Materials	67,987
Capital Outlay	68,697
Total Transportation	<u>\$427,854</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICES (Continued)

OTHER SUPPORT SERVICES

Salaries - Professional	\$28,601
Fica, Retirement, Etc.	2,511
Purchased Services	11,359
Total Other Support Services	<u>\$42,471</u>

<u>Total Support Services</u>	<u>\$2,153,813</u>
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<u>TOTAL EXPENDITURES</u>	\$6,683,394
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OTHER FINANCING USES

Transfer to Other Funds	<u>240,452</u>
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TOTAL EXPENDITURES AND OTHER
FINANCING USES

\$6,923,846

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS -
STUDENT ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Student Activity	Due to (From) Student Groups July 1, 2005	Receipts	Disbursements	Due to (From) Student Groups June 30, 2006
All Class Reunion Project	\$6,716	\$10,000	\$17,329	(\$613)
Athletic Boosters	9,548	17,515	16,160	10,903
Band Boosters	8,488	36,000	30,982	13,506
Band Boosters - Cap Outlay	5,000	4,232	4,232	5,000
Band Fund	0	3,254	3,254	0
Board Fund	897	16,463	15,898	1,462
Business Club	2,891	4,659	5,647	1,903
Class of 2005	879	0	147	732
Class of 2006	3,859	1,336	4,033	1,162
Class of 2007	920	8,062	4,660	4,322
Class of 2008	168	350	121	397
Class of 2009	0	345	63	282
Drama Club	1,849	10,683	10,760	1,772
Driver Education	4,425	18,600	23,025	0
Elementary Activities	3,252	1,402	2,744	1,910
Elementary March Reading	3,147	8,562	7,650	4,059
FCCLA	300	1,065	941	424
FFA	2,531	29,946	31,575	902
JH Activities	5,731	24,648	24,839	5,540
Lumber/Shop	0	450	450	0
National Honor Society	17	7,284	7,131	170
Office Supplies	0	583	583	0
SADD	5	0	0	5
Student Council	1,578	4,853	4,570	1,861
Uby PTO	0	1,750	134	1,616
Yearbook Fund	17,380	9,795	11,189	15,986
<u>TOTALS</u>	<u>\$79,581</u>	<u>\$221,837</u>	<u>\$228,117</u>	<u>\$73,301</u>

UBLY COMMUNITY SCHOOLS - UBLV, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2006

1991 SCHOOL BUILDING AND SITE BONDS

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST PAYMENTS DUE</u>		<u>TOTAL</u>
			<u>NOVEMBER 1</u>	<u>MAY 1</u>	
2006-2007	\$415,000	6.00%	\$12,450	\$12,450	\$439,900

1997 ENERGY CONSERVATION BONDS

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST PAYMENTS DUE</u>		<u>TOTAL</u>
			<u>NOVEMBER 1</u>	<u>MAY 1</u>	
2006-2007	\$75,000	5.40%	\$2,025	\$2,025	\$79,050

1998 DURANT RESOLUTION PACKAGE BONDS

<u>PAYMENT DATE - MAY 15TH</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL</u>
2007	\$2,622	4.76%	\$1,009	\$3,631
2008	2,747	4.76%	884	3,631
2009	2,878	4.76%	754	3,632
2010	3,015	4.76%	617	3,632
2011	3,159	4.76%	473	3,632
2012	12,649	4.76%	4,489	17,138
2013	3,467	4.76%	165	3,632
<u>TOTAL</u>	<u>\$30,537</u>		<u>\$8,391</u>	<u>\$38,928</u>



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 28, 2006

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of
Ubly Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ubly Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the Ubly Community Schools' basic financial statements and have issued our report thereon dated July 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ubly Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ubly Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Ubly Community Schools, in a separate letter dated July 28, 2006.

This report is intended solely for the information and use of the finance committee, management and Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf PC
LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 28, 2006

To the Board of Education of
Ubly Community Schools

In planning and performing our audit of the financial statements of Ubly Community Schools for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Ubly Community Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Trust and Agency Accounts

At June 30, 2006, one of the Activity Accounts had a deficit balance. Activity accounts are only permitted to expend the funds they have taken in. They are not allowed to borrow from other activities thus creating a deficit balance. Trust and agency bank reconciliations should be done timely and all groups should receive adequate accounting records to verify the accuracy of their account balances.

FUTURE ISSUES

1. MDE Changes Enforcement of Budgeting Act

The Michigan Department of Education (MDE) recently notified all Michigan School Districts that it was implementing changes in its enforcement of the Uniform Budgeting and Accounting Act. From their perspective, MDE is making this policy change in an effort to elevate awareness of the importance of proper budgeting and the need for district procedures to be in place to detect budget violations. MDE has not aggressively pursued these violations in past years, but has stated their intention to change that policy retroactively to the 2004-05 fiscal year. For that year, the Department has indicated that they are only focusing on the General Fund and will only act upon *Total Expenditures* violations that exceed 1% of the Total Expenditures budget and *Total Other Financing Uses* violations that exceed 1% of the Total Other Financing Uses budget.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (overspending your budget)
- Ending the fiscal year with a deficit (negative fund balance), and
- Adopting a budget that, when implemented, would put the district in a deficit.



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FUTURE ISSUES (Continued)

- The Department is also currently considering that a violation of the Act also includes the situation where the district did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved by the school board.

Amending your budget before June 30 of each year is the main way to avoid receiving a violation letter from the Department.

2. GASB Statement No. 45

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Ubyly Community Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- * Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- * Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- * Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

3. Cash Management of Federal Grants

The advance provisions of the Cash Management Improvement Act (CMIA) requires that advances be limited to three days cash needs. The Michigan Department of Education will no longer allow thirty day cash advances for ongoing programs.



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A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information and use of the Board of Education and management and others within the administration of Uby Community Schools. This restriction is not intended to limit distribution of this report, which, upon acceptance of the Board of Education, is a matter of public record.

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